

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**OFFICE OF MANAGEMENT AND BUDGET**

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**July 2009**

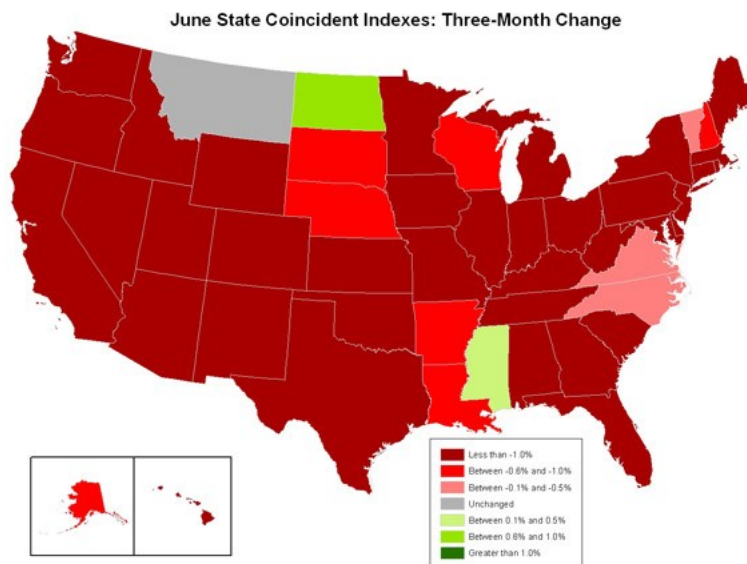
## MESSAGE FROM THE DIRECTOR

June marks the end of the state fiscal year and the end of the 2007-09 biennium. Nationwide, state budgets are in turmoil as tax revenues decline and budget shortfalls force cuts in programs, services, and staff. However, in North Dakota, the economic stability and growth we have experienced sets us apart in stark contrast to the rest of the nation. State general fund revenues for the 2007-09 biennium exceed the original legislative forecast by \$458.0 million, or 20.3 percent.

The Nelson A. Rockefeller Institute of Government, released a July 2009 *State Revenue Report* entitled State Tax Decline in Early 2009 Was the Sharpest on Record. The Institute noted that “both nominal and inflation adjusted figures indicate that the first quarter of 2009 marked the largest decline in state tax collections at least since 1963.” Although 36 states reported a decline in personal income tax collections during the first quarter of 2009, “North Dakota led the states that have broad-based income taxes, with growth of 32.2 percent.” Non-farm employment fell by 3.0 percent nationwide during the first quarter of 2009 and “only seven states saw declines of less than one percent, while North Dakota was the only state reporting an increase.”

In July, the Federal Reserve Bank of Philadelphia released updated coincident indexes for each of the 50 states for June 2009. The coincident indexes produced by the Federal Reserve combine four separate economic indicators to summarize current economic conditions. The four indicators

are: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index. As noted in the Federal Reserve report, “in the past month, the indexes increased in three states (Mississippi, North Dakota, and Vermont), decreased in 46, and remained unchanged in one (North Carolina)....” The following map, prepared by the Federal Reserve Bank of Philadelphia, shows that “over the past three months the indexes increased in two states (Mississippi and North Dakota), decreased in 47, and remained unchanged in one (Montana)....”



## OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production. The biennium was anticipated to begin with oil prices at \$40 per barrel and production of 205,000 barrels per day; by June 30, 2011, price is projected to increase to \$55 per barrel and production is anticipated to grow to 225,000 barrels per day. Currently, the price of North Dakota crude is around \$62 per barrel. Production jumped significantly in May, the most recent month for which statistics are available, to over 206,000 barrels per day. The current rig count is down to 41 rigs, 38 rigs less than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	May 2009	April 2009	March 2009
ND sweet crude price per barrel	\$50.71	\$42.68	\$40.65
Production (barrels/day)	206,200	196,700	195,100
Drilling permits	32	44	46
Producing wells	4,291	4,252	4,200
Rig count	34	41	49

Comments or Questions?

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## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM June 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 Leg. Forecast	Actual	Variance	Percent	April 2007 Leg. Forecast	Actual	Variance	Percent
Sales Tax	51,611,678	48,850,908	(2,760,770)	-5.3%	916,539,678	1,046,485,684	129,946,006	14.2%
Motor Vehicle Excise Tax	5,137,900	5,819,583	681,683	13.3%	113,558,900	130,151,534	16,592,634	14.6%
Individual Income Tax	16,876,000	16,699,532	(176,468)	-1.0%	497,816,000	681,703,888	183,887,888	36.9%
Corporate Income Tax	13,949,848	20,152,463	6,202,615	44.5%	148,569,848	239,695,937	91,126,089	61.3%
Insurance Premium Tax	3,566,143	815,203	(2,750,940)	-77.1%	55,470,000	64,388,601	8,918,601	16.1%
Financial Institutions Tax		(3,142)	(3,142)	-100.0%	9,400,000	10,486,495	1,086,495	11.6%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	328,651	287,654	(40,997)	-12.5%	20,753,844	20,042,392	(711,452)	-3.4%
Lottery	5,577,500	5,755,000	177,500	3.2%	11,155,000	11,055,000	(100,000)	-0.9%
Cigarette & Tobacco Tax	2,153,000	1,775,292	(377,708)	-17.5%	47,366,000	45,230,771	(2,135,229)	-4.5%
Wholesale Liquor Tax	620,000	643,722	23,722	3.8%	12,679,000	14,076,919	1,397,919	11.0%
Coal Conversion Tax	2,000,000	2,154,835	154,835	7.7%	47,447,000	49,438,952	1,991,952	4.2%
Mineral Leasing Fees	(150,000)	(3,304,964)	(3,154,964)	2103.3%	13,000,000	25,306,589	12,306,589	94.7%
Departmental Collections	3,651,000	3,268,615	(382,385)	-10.5%	56,729,639	62,143,185	5,413,546	9.5%
Interest Income	3,875,000	5,403,632	1,528,632	39.4%	36,420,000	49,506,190	13,086,190	35.9%
Bank of North Dakota-Transfer	30,000,000	30,000,000		0.0%	60,000,000	60,000,000		0.0%
State Mill & Elevator-Transfer	5,000,000		(5,000,000)	-100.0%	5,000,000		(5,000,000)	-100.0%
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers	15,000,000	15,003,560	3,560	0.0%	19,374,056	19,551,243	177,187	0.9%
<b>Total Revenues and Transfers</b>	<b>159,196,720</b>	<b>153,321,895</b>	<b>(5,874,825)</b>	<b>-3.7%</b>	<b>2,257,278,965</b>	<b>2,715,263,379</b>	<b>457,984,414</b>	<b>20.3%</b>

\* Oil and gas production and extraction tax collections totaled \$23.8 million in June. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through June, oil tax collections totaling \$484.3 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2007-09 BIENNIUM June 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	June 2007	June 2009	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	44,426,406	48,850,908	4,424,503	10.0%	841,930,866	1,046,485,684	204,554,818	24.3%
Motor Vehicle Excise Tax	5,860,339	5,819,583	(40,757)	-0.7%	125,722,268	130,151,534	4,429,266	3.5%
Individual Income Tax	18,742,286	16,699,532	(2,042,753)	-10.9%	587,659,377	681,703,888	94,044,511	16.0%
Corporate Income Tax	21,430,962	20,152,463	(1,278,499)	-6.0%	232,294,310	239,695,937	7,401,627	3.2%
Insurance Premium Tax	3,493,206	815,203	(2,678,002)	-76.7%	52,873,010	64,388,601	11,515,591	21.8%
Financial Institutions Tax		(3,142)	(3,142)	100.0%	9,702,362	10,486,495	784,132	8.1%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	262,246	287,654	25,408	9.7%	17,986,019	20,042,392	2,056,373	11.4%
Lottery	6,300,000	5,755,000	(545,000)	-8.7%	12,600,000	11,055,000	(1,545,000)	-12.3%
Cigarette & Tobacco Tax	2,080,241	1,775,292	(304,948)	-14.7%	44,683,370	45,230,771	547,401	1.2%
Wholesale Liquor Tax	611,133	643,722	32,589	5.3%	12,787,869	14,076,919	1,289,050	10.1%
Coal Conversion Tax	1,891,464	2,154,835	263,371	13.9%	49,217,864	49,438,952	221,088	0.4%
Mineral Leasing Fees	(491,355)	(3,304,964)	(2,813,609)	572.6%	13,960,279	25,306,589	11,346,310	81.3%
Departmental Collections	3,376,495	3,268,615	(107,880)	-3.2%	54,024,228	62,143,185	8,118,957	15.0%
Interest Income	5,249,000	5,403,632	154,632	2.9%	36,507,217	49,506,190	12,998,973	35.6%
Bank of North Dakota-Transfer	30,000,000	30,000,000		0.0%	60,000,000	60,000,000		0.0%
State Mill & Elevator-Transfer	5,000,000		(5,000,000)	-100.0%	5,000,000		(5,000,000)	-100.0%
Oil Tax Trust Fund-Transfer					55,300,000	115,000,000	59,700,000	108.0%
Other Transfers	15,259,807	15,003,560	(256,247)	-1.7%	34,410,132	19,551,243	(14,858,890)	-43.2%
<b>Total Revenues and Transfers</b>	<b>163,492,229</b>	<b>153,321,895</b>	<b>(10,170,334)</b>	<b>-6.2%</b>	<b>2,317,659,171</b>	<b>2,715,263,379</b>	<b>397,604,208</b>	<b>17.2%</b>

\* Oil and gas production and extraction tax collections totaled \$23.8 million in June. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through June, oil tax collections totaling \$484.3 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

## VARIANCES

June 2009 revenues are \$153.3 million, \$5.9 million less than projected in the original legislative forecast. The month of June concludes the 2007-09 biennium. Revenues for the biennium were \$458.0 million, or 20.3 percent, more than originally estimated by the 2007 legislature. Actual revenues were \$18.1 million more than estimated in the February 2009 executive forecast and \$52.7 million more than the legislative forecast completed in May 2009. Notable variances for the month, in comparison to the original forecast, are as follows:

- **Sales tax** collections for the month of June fell short of the original forecast by \$2.8 million. The 2009 legislature passed House Bill No. 1083, which resulted in a one-time reduction in sales tax revenue and was anticipated to reduce June 2009 collections by \$15.6 million. The fact that June collections were only short of the original forecast by only \$2.8 million could be the result of several factors. First, June collections were likely higher due to the correction of a timing difference which resulted in a shortage in the prior month. Second, biennium to date collections exceed the original forecast by \$130.0 million as a result of economic growth and strong consumer confidence. Those factors result in continued strong growth in sales tax collections.
- **Motor vehicle excise tax** collections exceed the original forecast by nearly \$700,000 for the month and by \$16.6 million for the biennium. At a time of historic declines in motor vehicle sales nationwide, North Dakotans have shown their confidence in the state's economy by continuing to purchase vehicles.
- **Individual income tax** collections were close to projections, falling short for the month by 1.0 percent. However, for the biennium, individual income tax collections exceed the forecast by \$183.9 million, or 36.9 percent.
- **Corporate income tax** collections exceed the original forecast by \$6.2 million. A portion of this variance is likely attributable to audit collections. However, for the biennium, corporate income tax collections exceed the forecast by \$91.1 million, or 61.3 percent, reflecting growth in the North Dakota economy and strength in corporate profits.
- **Insurance premium tax** collections fell short of estimates by \$2.8 million. This variance is attributable to timing as it offsets the May overage of \$2.9 million. For the biennium, collections exceeded the forecast by \$8.9 million, or 16.1 percent.
- **Oil and gas tax** collections for the month are \$23.8 million. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$23.8 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is approximately \$62 per barrel with production of 206,200 barrels per day in May.
- **Mineral leasing fees** were \$3.2 million lower than anticipated. These revenues are received by the state as a result of mineral extraction on federal lands within the boundaries of the state and are shared equally with the counties within which the minerals are produced. Every three months, fifty percent of the revenues collected during the preceding quarter are allocated to counties and offset state revenues collected in that month. Because revenues during the quarter were higher than anticipated, the quarterly payment to counties was also larger than previously anticipated, resulting in the variance shown for June.
- **Mill and Elevator transfer** was not made for the 2007-09 biennium due to losses incurred by the Mill. Although budgeted by the 2007 legislature, the 2009 legislature suspended this transfer. A transfer of \$4.7 million is planned for the 2009-11 biennium.

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